



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 9/22/2005

GAIN Report Number: IS5012

Israel

Kosher Foods

Israeli Kosher Food Market

2005

Approved by:

Fred Giles
U.S. Embassy
CAIRO

Prepared by:

Yossi Barak

Report Highlights:

The Israeli food market totals \$13 billion, of which \$2.5 billion is imported. The United States holds 25 percent of the import share, with an increasing share of value-added products. Specialty and branded products are expanding and continue to draw an increasing market share. There is strong potential for sales of value-added products.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Tel Aviv [IS1]
[IS]

Table of Contents

| | |
|--|----------------|
| Executive Summary | Page 3 |
| Section I. The Market | Page 4 |
| The World's Largest Kosher Market | Page 4 |
| Consumption & Supply | Page 4 |
| Table 1. Average Household Expenditure on Food | Page 4 |
| Israel's Economic Growth | Page 5 |
| Table 2. Key Indicators in the Economy of Israel | Page 5 |
| Imports | Page 5 |
| Table 3. Total Food Imports and US Share 2000-2004 | Page 5 |
| Table 4. Total Food and Raw Materials in the Food Industry | Page 6 |
| Table 5. Most Valuable Imports from US in 2004 | Page 6 |
| Section II. Kosher Distinctions | Page 6 |
| Israeli Law & Practice | Page 6 |
| The Chief Rabbinate | Page 6 |
| Special Products | Page 7 |
| Wine | Page 7 |
| Meat & Poultry | Page 7 |
| Special Ultra-Orthodox Kosher Certification | Page 8 |
| Trade Policy Issues | Page 8 |
| Section III. Marketing Channels | Page 10 |
| Table 6. Household Expenditure on Food by Type of Outlet | Page 10 |
| The Institutional Market | Page 11 |
| Importers | Page 11 |
| Section IV. Sector by Sector – Prospects for Kosher Exporters | Page 12 |
| Frozen Beef | Page 12 |
| Frozen Poultry | Page 12 |
| Fresh Frozen & Prepared Fish | Page 12 |
| Dried Fruits | Page 13 |
| Tree Nuts | Page 13 |
| Bakery Goods | Page 13 |
| Sauces | Page 14 |
| Snacks | Page 14 |
| Beverages | Page 14 |
| Wine | Page 14 |
| Section V. Tariffs, Taxes and other Regulations | Page 15 |
| Tariffs & Fees | Page 15 |
| Taxes | Page 15 |
| Regulatory Issues | Page 15 |
| Licensing Procedures – TRQ | Page 15 |
| Health Regulations | Page 15 |
| Standards | Page 16 |
| Phytosanitary Regulations | Page 16 |
| Section VI. Annexes | Page 17 |
| Annex 1. Total and US Imports by HS Chapter | Page 17 |
| Annex 2. Average Retail Prices of Selected Foods | Page 19 |
| Annex 3. Useful Email Addresses | Page 20 |

Executive Summary

The State of Israel constitutes the largest market for kosher food in the world. Over 60 percent of the Jewish population, over 5.5 million people, maintains some degree of kosher observance in the home. Israel's overall food, feed, beverage and tobacco market was estimated at over \$12.9 billion in 2003, 5 percent higher than the previous year. Almost 75 percent of this market value is supplied by Israel's own food manufacturers. In 2004, imports of food and agricultural products totaled \$2.49 billion; imports from the United States totaled \$600 million and represented 24 percent of all food, feed, beverage and tobacco imports.

Each of the 1.9 million households in Israel spends an average \$4,801 annually on food products – a \$9.1 billion retail market. An additional amount, estimated at \$3.8 billion per year, is spent on institutional consumption, including hospitals, schools, homes for the elderly, the police and the army. The largest categories for imported products are feed grains, oilseeds and miscellaneous edible preparations of Harmonized System Chapter 21. In these categories, the United States is by far the leading supplier.

Except for meat and poultry and their products, Israeli law does not require imports to be kosher. However, the major supermarket chains, most independent retailers, and almost all institutional purchasers are required to purchase only kosher-certified products. In the cities and some suburban areas, there has been a growing number of specialty stores, including delicatessens, liquor stores, and shops specializing in fancy baked goods, chocolates and sweets. Some of the delicatessen stores make an effort to stock a wide variety of imported products, including sauces, preserves, caviar and fish specialties, baked goods and snacks. Some of these stores serve specific clientele who have emigrated to Israel from other countries.

For supermarket sales and all retail marketing, the American producer must be aware of the strong competition in the market from domestic, European and other international suppliers. A wide variety of food products from around the world is available on Israeli supermarket shelves, and new products must fight for consumer acceptance to win shelf space and sales. Price competitiveness is important.

The food import business is a dynamic sector in Israel, with over 300 food importers. Many Israeli importers believe that there is room for more American products in the Israeli market. They note that while European products have a longer history in the Israeli market, some U.S. companies have done well in recent years. Many of the leading U.S. brand names that aggressively seek worldwide markets are already represented in Israel by an exclusive importer. The Israeli food market often demands more special treatment than other markets, beginning with kosher certification, Hebrew (and often additional language – Arabic, Russian) labeling and health regulations.

Section I. The Market

The World's Largest Kosher Market

The State of Israel constitutes the largest market for kosher food in the world. Over 60 percent of the Jewish population of over 5.5 million people maintains some degree of kosher observance in the home. Almost all institutional kitchens, from schools to the army to senior citizen housing, are kosher. Moreover, the major supermarket chains and many independent retailers are required to stock only kosher products. In addition, Israel's Muslim residents provide a market for kosher food that meets the Muslim halal dietary requirements.

Thus, an analysis of the market for kosher food in Israel is de facto a review of the overall Israeli market for food, worth \$13 billion. Although some non kosher products are produced in Israel and some are imported, their marketing channels are still limited but growing and their volume is estimated to be less than 8 percent of the total market.

Consumption and Supply

In 2003, Israel's overall food, feed, beverage and tobacco market was estimated at over \$12.9 billion, 5 percent higher than the previous year. Almost 75 percent of this market value is supplied by Israel's own food manufacturers who reported receipts from the local market of \$7.2 billion in 2003. Domestic fresh fruit, vegetables, meat and fish account for another \$1.5 billion. In 2002, 2003 and 2004, imports totaled \$2.02, \$2.13 and \$2.49 billion, respectively. Imports from the United States in 2004 totaled \$601.5 million, up 7 percent from the previous year and representing 24 percent of all food, feed, beverage and tobacco imports.

Household expenditures account for 70 percent of the food market. According to the 2003 national survey of household expenditure, the 1.9 million households in Israel each spends an average \$4,801 annually on food products – a \$9.1 billion retail market. An additional amount, estimated at \$3.8 billion per year, is spent on institutional consumption, including hospitals, schools, nursing homes and the army.

Table 1. Average Household Expenditure on Food – 2003

| | Outlay per Household in 2003 | Percentage Breakdown of Food Expenditure |
|-------------------------------------|-------------------------------------|---|
| Total Food Expenditure: | \$4,801 | 100.0 |
| Bread | \$664 | 13.8 |
| Vegetable oils and margarine | \$89 | 1.8 |
| Meat and Poultry | \$693 | 14.4 |
| Fish | \$149 | 3.1 |
| Milk products and eggs | \$658 | 13.7 |
| Sugar and sugar products | \$156 | 3.6 |
| Soft drinks | \$378 | 7.8 |
| Alcoholic beverages | \$75 | 1.5 |
| Miscellaneous food products | \$366 | 7.6 |
| Fresh vegetables and fruits | \$637 | 13.2 |
| Frozen vegetables | \$27 | 0.5 |
| Pickled vegetables | \$140 | 2.9 |
| Fruit, preserved and frozen | \$6 | 0.1 |
| Fruit, dried | \$79 | 1.6 |
| Fruit juices | \$27 | 0.5 |
| | Outlay per | Percentage |

| | Household in 2003 | Breakdown of Food Expenditure |
|----------------------|-------------------|-------------------------------|
| Meals away from home | \$516 | 10.7 |
| Tobacco | \$141 | 3.2 |

Source: Central Bureau of Statistics (CBS), Household Expenditure Survey, 2003.

Israel's Economic Growth

Israel's \$100 billion economy, which slowed considerably in 2001-2004 from the strong 6 percent growth level in 2000, is growing again, and 2005 is expected to end with a growth rate of 3.5 percent. The hi-tech sector, which had been a strong engine of growth in recent years and was dampened by world market conditions, is showing signs of recovery. The tourism industry has also been revitalized.

While the food sector as a whole tends to be less sensitive to the overall economy than other sectors, many retailers commented about the increased consumer sensitivity to prices in the last few years as a result of the economic recession. In addition, they noted reduced purchasing of products that consumers consider to be luxury items.

Table 2. Key Indicators in the Economy of Israel

| | 2001 | 2002 | 2003 |
|--------------------------|--------|--------|--------|
| GDP Growth - % | 3.3 | 1.6 | 4.3 |
| GDP per Capita - \$ | 15,860 | 16,498 | 17,080 |
| Total Imports- \$billion | 33.11 | 34.21 | 40.07 |
| Total Exports- \$billion | 29.51 | 31.78 | 38.62 |

Source: CBS, Monthly Bulletin of Statistics, No. 12/2004.

Imports

Imports of food, beverages, feedstuffs and tobacco were valued at \$2.49 billion in 2004, of which the United States supplied \$601.5 million – 24 percent of the total. The European Union and Canada were the other major suppliers, in addition to new suppliers from Eastern Europe and the Far East, who have also succeeded in carving out market share.

Table 3. Total Food Imports and U.S. Share 2000-2004 - \$ million

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|---------|---------|---------|---------|---------|
| Total food, beverages, feedstuffs & tobacco | 1,959.4 | 2,004.3 | 2,023.0 | 2,129.7 | 2,488.1 |
| From U.S. | 590.1 | 593.9 | 619.6 | 560.0 | 601.5 |
| Percent from U.S. | 30.1 | 29.6 | 30.6 | 29.0 | 24.1 |

Source: CBS, foreign Trade Statistics, Annuals, 2004.

Note: CBS figures relate to CIF value of the imported goods.

The largest categories for imported products are feed grains, oilseeds and miscellaneous edible preparations of Harmonized System Chapter 21 (sauces, soups, products for the baking industry and others). The United States is by far the leading supplier in these categories, but in several large import categories, such as meat, sugar and sugar confectionary, and prepared fruits and vegetables, U.S. suppliers have a smaller market share. Figures for all food import groups appear at the end of this report as Appendix A.

Of the \$2.49 billion in imports (food, beverages, feedstuff and tobacco), prepared food and beverages accounted for \$1 billion and bulk commodities comprised about for \$1.1 billion.

Table 4. Total Food and Raw Materials for the Food Industry - \$ million

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|----------------|----------------|----------------|----------------|----------------|
| Consumer Goods | | | | | |
| Prepared food | 703.2 | 728.0 | 728.1 | 747.1 | 903.5 |
| Beverages | 40.6 | 70.8 | 74.7 | 78.9 | 96.4 |
| Tobacco & products | 97.4 | 124.5 | 123.8 | 115.3 | 122.7 |
| Subtotal | 841.2 | 923.3 | 926.6 | 941.3 | 1,122.6 |
| Bulk Commodities for Food Industry | | | | | |
| Milling wheat | 191.2 | 170.7 | 191.4 | 172.5 | 232.0 |
| Soybeans for oil industry | 119.7 | 130.2 | 156.3 | 168.2 | 201.9 |
| Other unprocessed food inputs | 514.2 | 571.2 | 534.6 | 584.4 | 659.2 |
| Subtotal | 825.1 | 872.1 | 882.3 | 925.1 | 1,093.1 |
| Total Consumer Goods & Bulk Commodities for Food Industry | 1,666.3 | 1,795.4 | 1,808.9 | 1,866.4 | 2,215.7 |

Source: Processed from CBS, Foreign Trade Statistics, Annuals, 2004.

Table 5. Top Imports by Value from the United States in 2004

| Product Category | U.S. Origin \$million | U.S. as % of Category |
|-----------------------------------|------------------------------|------------------------------|
| Cereals | 189.2 | 33.4 |
| Oilseeds | 58.9 | 20.9 |
| Tobacco | 97.2 | 79.2 |
| Miscellaneous edible preparations | 169.5 | 18.7 |
| Fresh and dried fruits and nuts | 42.4 | 45.7 |

Source: CBS, Foreign Trade Statistics, Annuals, 2004

Section II. Kosher Distinctions

Israeli Law and Practice

Except for meat and poultry and their products, Israeli law does not require imports to be kosher. However, the major supermarket chains, most independent retailers and almost all institutional purchasers are required to obtain kosher certification for all products they buy. Thus, from the commercial point of view, the market for products without kosher certification is still limited. However, its share is growing as a result of the increasing purchase power of the immigrants from the Former Soviet Union (FSU), whose sensitivities to kosher issues are lower than that of the general population.

The Chief Rabbinate

Under Israeli law, the sole authority for determining whether food can be labeled and sold as kosher is the Council of the Chief Rabbinate of Israel. Even if a product has been certified

kosher by a rabbinical authority overseas, the manufacturer or the importer must obtain the agreement of Israel's Chief Rabbinate to be able to call it kosher in the Israeli market. For U.S. producers, this means that kosher in America is not always identical to kosher in Israel.

Jewish religious tradition has long allowed local autonomy in determining religious practice. As a result, rabbis in Jewish communities throughout the world (and even within Israel) have established and accepted sometimes differing rules for kosher certification. In an attempt to standardize the meaning of kosher within the State of Israel, the Chief Rabbinate requires that imported products meet the same kosher standards that Israeli producers meet in order to be labeled "kosher with the agreement of the Chief Rabbinate". The largest U.S. kosher supervisory organizations, such as OU, OK Labs, Kof-K, Star-K and many others are aware of the specific Israeli requirements and are accustomed to cooperating with the Israeli Rabbinate. Several other organizations, including many local rabbinical organizations, are also able to provide on-site supervision acceptable to Israel's Chief Rabbinate if arrangements are made in advance.

The Israeli Chief Rabbinate states that it is prepared to cooperate with a wide variety of Orthodox kosher supervisory organizations throughout the United States to coordinate the recognition of kosher certification in Israel. While there are many individual rabbis in the United States whose supervision may be acceptable to the Chief Rabbinate, there is a preference to work with organizations that can ensure continuity of contacts. For more detailed information see FAS report IS1009, available at <http://www.fas.usda.gov/scripts/attacherep/default.asp>. Enter IS1009 in search option number three (Search by AGR Number) to view the report.

The Israeli importer generally specifies what type of kosher authorization he requires, and plays a large role in coordinating the contacts between the U.S. producer, the U.S. supervisor and the Israeli Chief Rabbinate. Frequently, the Chief Rabbinate will not certify products as kosher for importers who also import non-kosher products. Kosher issues should be discussed and agreed upon with the importer before finalizing the sales agreement. Manufacturers should be aware that products produced without advanced, agreed upon specific supervision for sale to Israel will not be authorized as kosher after the fact for this market.

Special Products

Wine

Because of the ritual significance of wine, and the special kosher conditions for its production, export of kosher wine to Israel requires particular commitment and effort on the part of American wineries. Among other conditions for wine to be considered kosher in Israel it must be handled only by observant Jews throughout the production and aging process. It must be branded, marked and labeled so as to be clearly differentiated from non-kosher wine. It must be imported by importers who do not import non-kosher wine, and all additives must be certified as kosher.

Meat and Poultry

Until 1993, the Government Supply Authority of Israel was the sole purchaser of all imported meat. When this centralized buying organization was finally dismantled, the Knesset legislated that private importers may only import meat and poultry that meet the kosher requirements of the Chief Rabbinate of Israel. In practice, this has meant that all imported beef and lamb (\$150 million annually) is inspected and slaughtered abroad by ritual slaughterers sent especially by the Chief Rabbinate of Israel.

Further information regarding kosher slaughter for Israel can be found in FAS report IS1007, dated July 10, 2001.

Regarding all other products, the Chief Rabbinate's import division can be contacted at the following address:

Rabbi Yitzhak Cohen Arazi
Director, Import Division
The Chief Rabbinate of Israel
30 Yermiyahu Street
P.O. B. 36016
Jerusalem, Israel
Tel: 972-2-531 3137
Fax: 972-2-537 7875

Special Ultra-Orthodox Kosher Certification

While Israel law authorizes the Chief Rabbinate to determine what is kosher in Israel, the Chief Rabbinate's word is respected, but not sufficient for a growing number of orthodox and ultra-orthodox consumers. In particular, some are reluctant to accept the "regular" local rabbinate supervision of Israeli manufacturers and eating establishments, and see positive religious value in seeking out more exacting kosher supervision, known as Kosher l'mehadrin. The variety of these special ultra-kosher certifications are as diverse as the large number of religious sects that compose the ultra-orthodox community, including the Badatz of Jerusalem, the Hatam Sofer organizations, the Belz Hassidic organization, Agudat Israel and at least a dozen other highly respected rabbinical certifications in Israel.

For the most part, these voluntary Israeli certifications from Israeli rabbis are available only to Israeli manufacturers. With some exceptions, such as products which are not available at all in Israel and for which the ultra-orthodox community has a special need, most Israeli ultra-orthodox authorities are not eager to certify products produced abroad. However, parallels to these ultra-orthodox kosher supervisions do exist in the United States (and Europe) as well, where certain communities seek the certification of specific rabbis for their kosher concerns. And some of these foreign ultra-orthodox kosher certifications are known and highly respected by the ultra-orthodox in Israel.

Therefore, for certain products for which the importer believes there is an especially strong market among the ultra-orthodox, the importer may direct the manufacturer to seek the kosher certificate of a particular rabbi or organization in the United States. To some extent, different authorities are known and respected by different communities in Israel. However, some U.S. authorities are more widely accepted than others throughout the ultra-orthodox population.

A clear understanding about the specific kosher certification requirements should be established between the manufacturer or exporter and the importer during sale negotiations.

Trade Policy Issues

Much of the liberalization of food product imports is due to Israel's participation in a number of bilateral and multilateral trade agreements, which reduce both tariff and non-tariff barriers

in the agricultural and food sectors. The most significant are Israel's Free Trade Area Agreements with the United States and with the European Union, and Israel's adoption of the Uruguay Round disciplines of the World Trade Organization (WTO).

In 1985, the United States and Israel entered into a Free Trade Agreement (FTA) with both parties reserving exceptions for "agricultural policy considerations." In 1996, in order to address differing interpretations of the tariff treatment on agricultural products, the United States and Israel negotiated and signed an Agreement on Trade in Agriculture Products (ATAP). The ATAP is an annex to the U.S. – Israel FTA, providing greater Israeli market access for key U.S. agricultural exports such as apples, pears, almonds, wine, and dairy products.

The ATAP agreement divides agricultural imports to Israel from the United States into three product lists:

1. Products enjoying unimpeded access to the Israeli market – no duty, no fees, no levies and no quotas.
2. Products subject to tariff rate quotas (TRQ's) under which tariffs generally are zero for limited quantities. On additional imports beyond the TRQ amounts, importers pay the duties or fees appearing in List C – i.e. the General tariff, less ten percent.
3. Products subject to duties for which American exporters enjoy special preferential rates compared to the General MFN tariffs. The discount for American products ranges from ten percent to as much as 50 or 60 percent of the MFN rate, and in most cases the discount has improved annually over the five-year life of the agreement.

In October 2004, the United States and Israel signed an extension to the ATAP. The extension is a five-year agreement applied retroactive from January 1, 2004 to December 31, 2008. Under the new ATAP, over ninety percent of U.S. agricultural exports to Israel are expected to enter duty free with no limitations; five percent will enter under a tariff-rate quota, and the remaining five percent under a preferential tariff rate. Israel agricultural exports to the United States will enter duty free with the exception of over-quota import sensitive items (e.g. sugar, dairy, meat, cheeses, peanuts, chocolate, raw cotton, and un-manufactured tobacco). The new agreement maintains liberalized access to the U.S. market by granting zero in-quota tariff rates to a specified portion of Israeli imports of some of these products.

Details of the products and individual lists can be obtained from the Foreign Agricultural Service's Office of Agricultural Affairs, U.S. Embassy, Tel Aviv. Fax: 972-3-510-2565 or email: AgTelAviv@usda.gov.

Section III. Marketing Channels

Household expenditure by type of outlet is shown in the table below. See details in FAS Report IS4002

Table 6. Household Expenditure on Food by Type of Outlet - 2003

| Product Group | Local Grocery Stores | Open Air Market | Supermarket Chains | Green Grocers | Butcher Shops | Other Specialty Stores |
|--|----------------------|-----------------|--------------------|---------------|---------------|------------------------|
| Total Food | 22.6% | 7.9% | 49.7% | 4.8% | 6.8% | 8.2% |
| Bread, cereal & pastry | 28.2% | 2.9% | 51.5% | 0.2% | 0.3% | 17.0% |
| Vegetable oils & products | 30.7% | 4.5% | 55.7% | 0.2% | 0.3% | 8.6% |
| Meat & poultry | 10.3% | 6.0% | 42.7% | 0.1% | 36.1% | 4.7% |
| Fish | 12.5% | 11.3% | 46.6% | 0.3% | 7.8% | 21.5% |
| Milk, dairy products & eggs | 36.0% | 2.0% | 58.3% | 0.3% | 0.1% | 3.3% |
| Sugar & sugar products | 27.0% | 3.3% | 56.7% | 0.2% | 0.1% | 12.5% |
| Soft drinks | 37.7% | 2.6% | 52.6% | 0.1% | 0.1% | 7.0% |
| Alcoholic beverages | 23.9% | 3.7% | 60.2% | 0.1% | 0.1% | 12.1% |
| Miscellaneous foods | 24.4% | 2.6% | 60.5% | 0.3% | 0.7% | 11.5% |
| Fresh vegetables | 10.2% | 27.7% | 32.5% | 27.7% | 0.1% | 1.8% |
| Fresh fruit | 9.6% | 28.6% | 30.6% | 29.6% | 0.0% | 1.6% |
| Frozen/pickled vegetables | 23.2% | 3.2% | 67.8% | 0.8% | 1.1% | 4.0% |
| Dried fruit | 26.9% | 18.2% | 45.6% | 1.9% | 0.1% | 7.4% |

Source: Central Bureau of Statistics, Household Expenditure Survey, 2003.

The increased concentration of the market enhances opportunities for U.S. exporters of kosher foods. All the major supermarket chains and hotels must strictly adhere to the kosher requirements set out by Israel's Chief Rabbinate.

The Blue Square chain, a cooperative, has the largest number of outlets (171 in total), and the largest total store area. Its annual turnover is \$1.3 billion. The chain trades under the name of Mega for its hypermarkets, SuperCenter for its largest supermarkets, and SuperCenter City and Co-op for other stores.

Another large retail chain, SuperSol, is comprised of 150 stores under three banners, including SuperSol, SuperSol Big, and SuperSol Deal, its low-price store chain.

The Cooperative Shefa Mehadrin operates six stores aimed at the ultra-orthodox market, an important market served by the Blue Square cooperative and a number of other competitors. In the cities and some suburban areas, there has been a growing number of specialty stores, including delicatessens, liquor stores, and shops specializing in fancy baked goods, and chocolates and sweets. Some delicatessens make an effort to stock a wide variety of imported products such as sauces, preserves, caviar and fish specialties, baked goods and snacks. In certain areas, some of these stores serve specific clientele who have emigrated to Israel from other countries, by offering branded foods from their country of origin: South African products in Raanana; Russian brands in Ashdod, Nazareth Elite and

elsewhere; Far Eastern products in South Tel Aviv; and U.S. brands in certain neighborhoods of Jerusalem. In some cases, the storeowners import small quantities of specific products on their own or through specialist importers.

For supermarket sales and all retail marketing, the American producer must be aware of the strong competition in the market from domestic, European, and other suppliers. A wide variety of food products from around the world is available on Israeli supermarket shelves, and new products must fight for consumer acceptance to win shelf space and sales. Price competitiveness is important, but market penetration by U.S. brand name products is equally dependent on investment in sales promotion and market development. Traders believe that imported goods with quality and taste attributes which appeal to Israeli consumers, can overcome price gaps with competing products, particularly for low unit-price items. Traders also note that the Israeli food market often demands more special treatment than other markets, beginning with kosher certifications, Hebrew (and often additional language) labeling and health regulations. Even beyond these substantive issues, Israeli traders and manufacturers have indicated that Israeli tastes in food are quite unique, and that products popular in the United States are not necessarily popular in Israel. Imported food products that have *not* been widely accepted by Israeli consumers include some fresh and frozen cakes, canned soups, and specific brands of sauces and chocolates, among others. Israelis point out that only in Israel did McDonald's agree to change the way its hamburgers are prepared to accommodate Israeli tastes. Therefore, it is recommended that exporters test market products in Israel in order to determine whether their products offer quality and taste attributes that appeal to Israeli consumers.

However, once successful in finding a niche for their products, American suppliers that demonstrate consistent quality, reliability and responsiveness to importer needs, will find Israel to be a good market with a high degree of customer loyalty.

The Hotel, Restaurant, and Institutional Market

The Hotel, Restaurant and Institutional (HRI) sector accounts for 30–40 percent of food sales in Israel. Imported products such as beef, preserved mushrooms, pineapple, other preserved fruit and tuna fish play an important role in this market. See details in FAS report IS4002: Hotel, Restaurant and Institutional Food Service Sector Report. The Israel Defense Forces (IDF) often purchase products directly from food manufacturers. The Ministry of Defense has indicated a serious interest in purchasing kosher U.S. products.

Importers

The food import business is a dynamic sector in Israel, with over 300 food importers. Many Israeli importers believe that there is room for more American products in the Israeli market. They note that while European products have a longer history on the Israeli market, some U.S. companies have done well in recent years. Many of the leading U.S. brand names that aggressively seek worldwide markets are already represented in Israel by an exclusive importer. However, importers point out that many of the second tier and regional American brands are not present.

Importers offered several recommendations for introducing products into Israel:

1. Most importers seek a brand name that they can develop.
2. Importers want multi-year exclusivity on the brand name.
3. Promotion is essential for developing sales.
4. Exporters should share the costs of market development and product promotion.

5. Importers will show flexibility with a variety of cost sharing arrangements for promotion.
6. Depending on the product marketed, importers recommend trade public relations (articles in the media, reporters briefings), in-store promotions and general advertising for product introduction.
7. A few importers use formal taste testing and focus groups in choosing a product. This is particularly true for private label products.

Section IV. Sector by Sector – Prospects for U.S. Kosher Exporters

Frozen Beef

Israel annually imports between 45,000 and 55,000 metric tons (MT) of frozen beef to supplement its domestic production of 80,000 MT. Frozen beef imports come primarily from Argentina, Uruguay, Brazil and recently, Eastern Europe. Imports of frozen beef from all sources enter Israel duty free.

Currently, imports of U.S. beef and live cattle are banned due to the findings of the imported case of BSE in Washington State and the subsequent domestic case in Texas. However, many traders believe that when imports are permitted, the United States could significantly increase its share of Israel's frozen beef market to 5,000 or more tons, if U.S. meat packers would dedicate one or more plants to the production of kosher beef according to the specifications of Israel's Chief Rabbinate.

Price also will play an important role in determining U.S. market share, but studies indicate that the Israeli consumer appreciates quality and is willing to pay a premium of ten percent or more for a high quality product.

Frozen Poultry

Duty-free quotas exist under the ATAP for importation of approximately 300 MT each of frozen and processed poultry. However, Israeli importers have encountered difficulties in fulfilling these quotas to date.

Fresh Frozen and Prepared Fish

To be kosher, fish and other seafood must have fins and scales. It is relatively easy to obtain kosher certification for any fresh or frozen product which complies with that specification. Although a small amount of shellfish and other non-kosher seafood is imported, the market is limited for such products. As previously noted, Israel's Chief Rabbinate often will not grant kosher certification to an importer who also imports non-kosher products.

Israel imports the majority of the fish and seafood it consumes. In 2000, annual imports for all products totaled approximately \$120 million, with products from the United States comprising 14 percent of total imports. The leading item is tuna, with imports valued at over \$11 million. It has been imported for years in canned formats, but recently, frozen tuna has been imported for packing in Israel under both Starkist and BumbleBee brands.

Although Israel's per capita fish consumption is low relative to other countries, it is growing. Under the U.S.-Israel 1996 ATAP, there is an annual duty-free quota for more than 4,000 MT of frozen salt-water fish. The quota was almost fully utilized by U.S. exporters for the first time in 2000. The out-of-quota duty is 15 percent. Frozen filets of sea fish are duty free from all sources. Imports in the medium term are expected to grow faster than the population, and could increase by 20 percent in the next five years.

One constraint in the market is the lack of consumer recognition of the United States as a source of quality fish, with the exception of tuna and in the non-kosher market segment, fresh American lobster (*Homarus americanus*).

There is potential for increased imports and new sales of other kosher prepared fish specialties from the United States. U.S. gefilte fish is imported duty free under a 160 MT TRQ, with the requirement that no carp is included in the product. Also, there have been some sporadic imports of herring specialties in recent years.

Dried Fruits and Nuts

Kosher certification for dried fruits and nuts (including tree nuts) is required due to the drying process, equipment, and any other ingredients used during processing. Unprocessed raw nuts present fewer problems.

Bakery Goods

It is difficult to generalize with respect to kosher certification for the many products in this category. In many cases companies obtain U.S. certification in order to expand their American markets. With few exceptions, this should suffice to obtain approval for the Israeli market. The presence of eggs in the product may require some additional effort in obtaining certification. As the products and the raw materials used in the production process are so varied, it is important to consult with the potential importers and have them provide specific guidance on a product by product basis.

Breakfast cereal is an important category for U.S. suppliers, with \$6 million in imports out of a total \$25 million market. However, price competition with European suppliers (often of the same brand product) makes this market very sensitive to exchange rates. The large volume-to-value ratio, which makes the long route from the United States relatively costly, reduces the competitiveness of the American product.

Other categories such as cookies and crackers can also offer opportunities to American manufacturers who are able to develop market awareness of their brands. Competition from Israeli producers and European imports is, however, vigorous.

Noodle products, including pasta, have a market of about \$90 million annually in Israel. Insofar as eggs are an important ingredient in pasta production, kosher certification may prove slightly more difficult than for other bakery products. However, there are several brands of noodles and pasta on the U.S. market which already have kosher certification. These may not encounter serious difficulties in entering the kosher market in Israel. Manufacturers should consult with their agents or importers to ascertain what is required.

Sauces

The growing sauce market in Israel is estimated at 2,400 MT per year and valued at \$19 million. The kosher Meat and Poultry Imports Law would apply to soups and sauces which contain meat or poultry products or extracts. Importation of such products without kosher certification from the Chief Rabbinate would be against the law. To be considered kosher, the meat or poultry component would have to come from an animal that had undergone kosher slaughter according to the Rabbinate of Israel. Some producers of products containing meat or meat extracts import meat obtained from Israeli-kosher slaughter, mainly from Latin American suppliers. At present, there is no U.S. slaughter facility approved by the Chief Rabbinate of Israel.

Imported goods make up over 25 percent of this market and most sauces from the United States are duty free. A number of popular U.S. brand names are found on local shelves, including Heinz, French's, Paul Newman, La Choy, Ken's, Hellmans, and several more.

Snacks

Snacks, particularly savory snacks, are among the most highly competitive sectors in the food market. Two major firms, Elite and Osem, dominate and compete vigorously in this sector. Estimates place annual consumption at more than \$100 million: 4,500 tons of wheat snacks, and 8,500 tons of peanut snacks.

Requirements for obtaining kosher certification in this category are on a product-by-product basis, or at least determined based on groups of raw materials. Exporters interested in selling products as kosher should consult with potential importers or agents in Israel.

Beverages

The Israeli soft drink market is valued at \$600 million. International brands dominate the carbonated category, but domestic brands still survive and lead the market in non-carbonated fruit drinks. Both carbonated and non-carbonated U.S. soft drinks and U.S. beers have come in and out of the market over the past few years. Lately, imported "power" drinks seem to be catching on. Of particular interest has been the growth in the consumption of mineral water. Natural fruit juices are also popular in Israel, about a \$70 million market.

Wine

Wine consumption in Israel is increasing from a low per capita base of 4-6 liters per year. Most of it is low quality semi-sweet and sweet types used for sacramental purposes. Yet, consumption of red wine has tripled and the growth has been in quality wines. This demand has also induced significant plantings of quality red varieties. Wine imports have grown from less than half a million dollars to over \$12 million in less than a decade. There is room for quality kosher wine of U.S. origin. At present the United States accounts for \$1 million of the total market, making it the fourth largest supplier after Chile, France and Italy. As detailed above, kosher requirements for wine are particularly rigorous, but once wineries have made an effort to achieve kosher certification, it is likely that they will invest in market development to increase demand.

Section V. Tariffs, Taxes and other Regulations

Tariffs and Fees

Full information regarding fees applicable to food imports from the United States can be obtained from the Israel Customs Authority by completing the on-line request for information form at the following site: www.mof.gov.il/preruling.

Taxes

All imports, including those from the United States, are subject to value added tax (VAT) of 17 percent.

Regulatory Issues

Imported products must conform to the standards set by one or more of the following official bodies: the Ministry of Health, Food Control Services, the Standards Institution of Israel, and in the Ministry of Agriculture, the Israel Veterinary Service and Animal Health and Plant Protection and Inspection Service. Import licenses for most products subject to TRQ's are given to Israeli resident importers by the Ministry of Industry and Trade or the Ministry of Agriculture.

Licensing Procedures – TRQ

In the case of products for which there is a TRQ, the Ministry of Agriculture or the Ministry of Industry and Trade, issues an import license exempting the bearer from duty on the quantity indicated on the license.

The list of U.S. products that are subject to TRQs can be obtained from the American Embassy – Tel Aviv at fax: 972-3-510-2565 or email: AGTELAVIV@USDA.GOV.

Importers wishing to bring in goods without use of a TRQ are not required to obtain a license except for veterinary or phytosanitary purposes. This license will be issued by the Food Control Services of the Ministry of Health.

Health Regulations

The Ministry of Health requires that all food products entering the country be accompanied by an import license indicating any limiting conditions the Food Control Services may deem necessary to impose. The Ministry has strict regulations for imported food products and thoroughly inspects each product entering the country. Authorization to import food products requires a battery of laboratory tests and compliance with packaging and labeling standards. See details in FAS Report IS4014.

For information on entry procedures and requirements for processed and packaged food, direct inquiries to:

Eng. Avraham Ziv, Acting Director
Food Control Services
Ministry of Health
12-14 Ha'arba'a Street
Tel Aviv, 61070, Israel
Tel: 972-3-627 0115 Fax: 972-3-627 0126

Standards

The Standards Institution of Israel (S.I.I.) and the Food Control Services stipulate specific requirements, which must be met by imported products. These standards include restrictions on labeling and packaging of food, as well as technical specifications with respect to chemical and physical attributes.

For more details see FAS report IS4014.

For further information, interested firms should contact:

The Standard Institute of Israel
42 Levanon Street
Tel Aviv 69977 Israel
Tel: 972-3-646 5154 Fax: 972-3-642 6762

The Food Control Service
Ministry of Health
12-14 Ha'arba'a Street
Tel Aviv 61070 Israel
Tel: 972-3-627 0115 Fax: 972-3-627 0126

Phytosanitary Regulations

Fruit and vegetables require a phytosanitary certificate. The Plant Protection and Inspection Service of the Ministry of Agriculture determines import conditions for fresh fruits and vegetables and regularly inspects grain and fodder shipments for aflatoxin, micotoxins and residues of pesticides and heavy metals prior to authorizing their discharge at the ports of entry.

For further information, contact:
Mrs. Miriam Freund, Deputy Director
Plant Protection and Inspection Service
Ministry of Agriculture
P.O. Box 78
Bet Dagan 50250
Tel: 972-3-968 1561 Fax: 972-3-968 1571
Email: miriamf@moag.gov.il

Section VI. Annexes

Annex 1. Total and U.S. Imports by HS Chapter – 2002-2004, \$ Thousand

| Ch | Description | Total Imports \$1000 | | | Imports from US \$1000 | | | US Share % | | |
|----|---|----------------------|---------|---------|------------------------|---------|---------|------------|------|------|
| | | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| 01 | Live Animals | 25,876 | 22,593 | 21,621 | 3,119 | 2,792 | 1,599 | 12.0 | 12.3 | 7.3 |
| 02 | Meat & edible meat offal | 124,986 | 11,271 | 156,779 | 753 | 898 | 164 | 0.6 | 0.7 | 0.1 |
| 03 | Fish, crustaceans & mollusks | 91,236 | 102,860 | 103,198 | 1,718 | 1,874 | 3,397 | 1.8 | 18 | 3.2 |
| 04 | Dairy produce: eggs, natural honey, edible products of animal origin | 24,235 | 25,295 | 31,699 | 3,528 | 4,363 | 6,528 | 14.5 | 17.2 | 20.5 |
| 05 | Products of animal origin nesoi | 2,153 | 2,151 | 2,919 | 378 | 352 | 298 | 15.0 | 16.3 | 10.2 |
| 06 | Live trees & other plants, bulbs roots, & garden plants | 7,649 | 8,405 | 9,995 | 49 | 59 | 25 | 0.6 | 0.7 | 0.2 |
| 07 | Edible vegetables, roots & tubers | 36,195 | 44,125 | 42,638 | 2,531 | 3,173 | 3,457 | 6.9 | 7.1 | 8.1 |
| 08 | Edible fruits & nuts; peel of melons & other citrus fruit | 73,213 | 82,271 | 92,719 | 36,311 | 42,274 | 42,399 | 49.5 | 51.3 | 45.7 |
| 09 | Coffee, tea, mate & spices | 41,249 | 44,193 | 49,810 | 3,369 | 3,336 | 2,986 | 8.1 | 7.5 | 5.9 |
| 10 | Cereals | 381,568 | 419,225 | 566,095 | 157,691 | 139,558 | 189,295 | 41.3 | 33.2 | 33.4 |
| 11 | Products of the milling industry; malt & starches; inulin; wheat gluten | 42,823 | 50,247 | 41,641 | 15,121 | 19,697 | 12,373 | 35.3 | 39.2 | 29.7 |
| 12 | Oil seeds, grains fruits, industrial & medical plants, straw & fodder | 206,674 | 222,230 | 280,737 | 140,602 | 96,074 | 58,944 | 68.0 | 43.2 | 20.9 |
| 13 | Tree gum; resins, other vegetable saps & extracts | 13,178 | 17,107 | 18,307 | 1,537 | 3,020 | 1,671 | 11.6 | 17.6 | 9.1 |

| CH | Description | Total Imports \$1000 | | | Imports from US \$1000 | | | US Share % | | |
|----|--|----------------------|------------------|------------------|------------------------|----------------|----------------|-------------|-------------|-------------|
| | | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| 14 | Vegetable plaiting materials; vegetable products n.e.c. | 4,576 | 4,323 | 7,830 | 2,273 | 1,104 | 4,101 | 49.6 | 25.5 | 52.3 |
| 15 | Animal or vegetable fats & oils; animal or vegetable waxes | 57,851 | 71,125 | 64,620 | 5,837 | 4,764 | 5,723 | 10.0 | 6.6 | 8.8 |
| 16 | Preparation of meat, fish or other aquatic invertebrates | 35,941 | 32,872 | 38,839 | 6,038 | 3,752 | 5,816 | 16.7 | 11.4 | 14.9 |
| 17 | Sugar & sugar confectionery | 156,843 | 158,689 | 163,823 | 3,749 | 2,399 | 4,514 | 2.3 | 1.5 | 2.7 |
| 18 | Cocoa & cocoa preparations | 60,000 | 71,983 | 77,240 | 549 | 746 | 590 | 0.9 | 1.0 | 0.7 |
| 19 | Preparations of cereals, flour starch or milk; pastry products | 81,538 | 84,927 | 94,457 | 10,151 | 10,443 | 11,865 | 12.4 | 12.2 | 12.5 |
| 20 | Preparations of veg, fruits, nuts and other plants | 107,334 | 105,922 | 135,029 | 11,810 | 10,667 | 17,425 | 11.0 | 10.0 | 12.9 |
| 21 | Misc. edible preparations | 182,562 | 174,274 | 202,469 | 91,928 | 87,738 | 84,306 | 50.3 | 50.3 | 41.6 |
| 22 | Alcoholic beverages and vinegar | 74,664 | 78,885 | 96,426 | 3,900 | 3,431 | 4,876 | 5.2 | 4.3 | 5.0 |
| 23 | Residues and waste from food industries prepared animal fodder | 66,554 | 72,429 | 127,895 | 18,574 | 25,891 | 41,854 | 27.9 | 35.7 | 32.7 |
| 24 | Tobacco and tobacco substitutes | 123,763 | 115,295 | 122,686 | 98,121 | 91,589 | 97,244 | 79.2 | 79.4 | 79.2 |
| | Total Food & Agriculture | 2,023,21 | 2,129,697 | 2,488,131 | 619,673 | 559,994 | 601,450 | 30.6 | 29.0 | 24.1 |

Annex 2. Average Retail Prices of Selected Foods - NS/Unit including 17% VAT

| Product | Quantity | Price - NS | |
|-------------------------------------|--------------|---------------|---------------|
| | | Dec 2004 | June 2005 |
| | | \$1 = NS 4.46 | \$1 = NS 4.55 |
| Bread, cereals and bakery products | | | |
| White bread | 750 gr | 3.25 | 3.25 |
| Petit-Beurre biscuits | 250 gr | 5.71 | 6.26 |
| White wheat flour | 1 Kg | 2.89 | 2.96 |
| Noodles | 250 gr | 3.13 | 3.13 |
| Macaroni, Spaghetti | 250 gr | 3.25 | 3.00 |
| Brown rice (packed) | 1 Kg | 7.68 | 7.93 |
| Fats & Margarine | | | |
| Soybean oil (in plastic bottle) | 1,000 cu | 6.42 | 6.29 |
| Margarine (packed) | 200 gr | 2.23 | 2.30 |
| Meat Poultry and Fish | | | |
| Beef ribs, fresh | 1 Kg | 44.29 | 44.47 |
| Beef steak – shoulder, fresh | 1 Kg | 54.78 | 56.13 |
| Beef ribs, frozen | 1 Kg | 20.95 | 21.58 |
| Beef liver, frozen | 1 Kg | 15.40 | 15.89 |
| Chicken breast | 1 Kg | 25.90 | 24.26 |
| Tuna fish (canned) | 170 gr | 5.21 | 5.16 |
| Milk & Dairy Products | | | |
| Butter, unsalted, locally produced | 100 gr | 2.67 | 2.73 |
| Cured cheese, from cows milk | 100 gr | 4.12 | 4.18 |
| Miscellaneous Food Products | | | |
| Tea bags (1 gram) | 100 bags | 17.13 | 16.95 |
| Instant coffee | 200 gr | 21.79 | 22.60 |
| Cocoa powder | 150 gr | 6.94 | 7.45 |
| Beverages | | | |
| Beer, regular | 330 gr | 4.91 | 4.95 |
| Carbonated drinks in plastic bottle | 1.5 liter | 5.55 | 5.61 |
| Citrus beverages, pasteurized | 2 liters | 3.88 | 3.90 |
| White sugar | 1 Kg | 2.45 | 2.53 |
| Jam | About 900 gr | 10.34 | 10.77 |
| Fruit confitures | 330 gr | 9.88 | 12.87 |
| Toffee candies (packed) | 200 gr | 5.56 | 5.73 |
| Milk chocolate bar | 100 gr | 5.02 | 5.31 |
| Canned Fruit and Vegetables | | | |
| Garden peas, canned | 335 gr | 5.24 | 4.98 |
| Tomato paste | 100 gr | 1.85 | 1.84 |

Annex 3. Useful Email Addresses**Importers of Kashrut mehuderet product**

Shaked Tevel Ltd.

1shaked@aquanet.co.il

Paul Wimpfheimer

paulw@netvision.net.il

Office of Agricultural Affairs, U.S. Embassy Tel Aviv

Agtelaviv@usda.gov

The Israeli Federation of Chambers of Commerce

chamber@tlv-chamber.org.il

Israel Customs Authority

Customs Tariff Inquiries

www.mof.gov.il/preruling

Standards Institute of Israel

www.sii.org.il

Ministry of Agriculture

Plant Protection & Inspection Service

Miriam Freund

Deputy Director

miriamf@moag.gov.il

Meir Mizrahi

Director, Plant Quarantine

meirm@moag.gov.il

Israel Veterinary Services

Dr. Ronnie Ozari

Chief Import/Export Veterinary Officer

roni@moag.gov.il

USDA

Food Safety & Inspection Service (FSIS)

International Trade Policy Division

Dr. Rick Harries

Rick.harries@usda.gov

Animal & Plant Health Inspection Service (APHIS)

Plant Protection

International Support Services

Riverdale, MD

Mr. Wilmer E. Snell

Wilmer.e.snell@aphis.usda.gov

Veterinary Services

National Center for Import and Export

Dr. Ted R. Williams

Ted.r.williams@usda.gov